

Message Text

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ACTION COME-00

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 265

INFO AMEMBASSY PARIS

AMCONSUL ALEXANDRIA POUCH

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EO 11652: NA

TAGS: BEXP EAID EG

SUBJECT: CHEMTEX-DUPONT POLYESTER PROJECT

REF: (A) CAIRO 1062, (B) CAIRO 0564, (C) CAIRO 0310

1. WE HAVE HAD VARIOUS INDICATION THAT AT LEAST SOME ELEMENTS IN GOE MAY NOT BE ENTIRELY HAPPY ABOUT AWARD TO FRENCH OF POLYESTER PLANT PROJECT. ALTHOUGH CONTRACT WITH FRENCH FIRM (RHONE POULENC) REPORTEDLY SIGNED, WE UNDERSTAND THAT AS OF SHORT TIME AGO, GOE HAD NOT YET ISSUED IRREVOCABLE L/C, EQUIVALENT TO 10 PERCENT OF CONTRACT PROCE. UNTIL L/C ISSUED, CONTRACT IS NOT IN EFFECT. ON HIS PART, MININDUSTRY SHAHIN HAS BEEN PRESSING FOR FINALIZING COMMITMENT DESPITE FACT THAT FRENCH FIRM, ONCE AWARDED CONTRACT, INCREASED ITS CONTRACT PRICE AND ALTERED FINANCING TERMS.

2. SPECIFICALLY, FRENCH INCREASED PRICE TO ABOUT \$40 MILLION, APPROXIMATELY \$5 MILLION MORE THAN THEY INITIALLY TENDERED. MOREOVER, FRENCH ALSO INCREASED OVERALL AVERAGE INTEREST RATE FROM ABOUT 5.5 PERCENT TO 7.5 PERCENT PER ANNUM. THERE IS CONSIDERABLE ANNOYANCE AMONG MISR RAYON OFFICIALS

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ABOUT THIS FRENCH ACTION. IT MEANS FRENCH CONTRACT

TERMS ARE LESS FAVORABLE THAN WOULD HAVE BEEN THE CASE HAD THE AWARD GONE TO CHEMTEX-DUPONT, UTILIZING AID FINANCING.

3. STATUS OF A POSSIBLE SECOND POLYESTER PLANT STILL UNCERTAIN. STUDY MADE BY GOFI ALLEGEDLY INDICATES EXISTING MACHINERY IN TEXTILE PLANTS IS ONLY CAPABLE OF HANDLING ABOUT 15,000 TONS (COTTON AND WOOL) OF POLYESTER FIBER PER YEAR. WITH FRENCH PLANT SCHEDULED TO PRODUCE ABOUT 23,800 MT/Y OF FIBER, ANOTHER \$15 MILLION IN INVESTMENT WOULD BE REQUIRED TO HANDLE PRODUCTION FROM FIRST PLANT. \$40 MILLION OF ADDITIONAL INVESTMENT WOULD BE REQUIRED TO PROCESS POLYESTER FIBER FROM A SECOND 25,000 TON PER YEAR PLANT, IF THIS IS DECIDED UPON. IN VIEW THIS SITUATION, MISR RAYON HAS ASKED INFORMALLY IF AID COULD FINANCE A CAPTIVE SPINNING AND WEAVING MILL FOR IT. WE HAVE SUGGESTED THAT IT WOULD MAKE MORE SENSE TO USE FUNDS TO INCREASE ABILITY OF EXISTING SPINNING AND WEAVING MILLS RATHER THAN CREATE MISR RAYON AS A COMPETITOR. MISR RAYON HAS ALSO ASKED THAT WE CONSIDER FINANCING REHABILITATION OF ITS EXISTING PLANTS, TWO OF WHICH HAD PREVIOUSLY BEEN FINANCED BY AID.

4. SITUATION APPEARS TO BE ARISING WHERE FRENCH POLYESTER PLANT WILL BE BRACKETED BY AID ASSISTED PROJECTS. THUS, WE HAVE BEEN ASKED TO FINANCE A DMT PLANT IN FY 77 AND HAVE INCLUDED PROJECT IN OUR CONGRESSIONAL SUBMISSION. ENTIRE OUTPUT WILL BE USED BY MISR RAYON FOR PRODUCTION OF POLYESTER. WITHOUT SUCH PROJECT, GOE WOULD BE FORCED TO RELY ON EXPENSIVE AND ERRATIC IMPORTS. AS INDICATED ABOVE, WE HAVE ALSO BEEN ASKED TO FINANCE REHABILITATION OF MISR RAYON'S EXISTING PLANTS WHICH WILL UTILIZE PRODUCED POLYESTER.

5. WE HAVE MADE THIS POINT TO APPROPRIATE MISR RAYON OFFICIALS, INDICATING IT GIVES US SOME LIMITED OFFICIAL USE

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PROBLEM TO CONSIDER PROJECTS RELATED TO THE POLYESTER PLANT, ESPECIALLY AFTER THE WAY IT WAS HANDLED. WE HAVE BEEN PRIVATELY INFORMED THAT MISR RAYON AND GOFI MAY BE RECONSIDERING THE DECISION TO AWARD THE POLYESTER PLANT TO THE FRENCH FIRM AND WHETHER TO RECONSIDER THE CHEMTEX-DUPONT OFFER. DECISION WILL REPORTEDLY BE MADE BY FEB 29.

6. MEANWHILE, MCGANNON OF CHEMTEX HAS RETURNED
TO CAIRO TO BE AVAILABLE SHOULD EGYPTIANS
AGAIN SHOW INTEREST IN CHEMTEX-DUPONT PROPOSAL.
EILTS

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